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GOR Resolutions on Distribution of Agricultural Subsidies

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Report Highlights:

In December 2012, the Russian Government issued several resolutions on the method of distribution of federal budget subsidies to agricultural producers in 2013. The allocation of state support for Russian agriculture through federal subsidies in 2013 is outlined in the State Program for Development of Agriculture in 2013-2020. The budget for these subsidies was approved on December 5, 2012 by the Federal Law "On the Federal Budget 2013 and the Planned Period 2014 and 2015."

General Information:

In the end of December 2012, in order to implement state support for domestic agriculture production in 2013 in accordance with the Federal Program on the Development of Agriculture in 2013-2020 (FAS/Moscow Report: Agriculture Development Program 2013-2020), the Russian Government adopted seven resolutions that specify methods (rules) for distribution of federal subsidies to crop producers, milk producers, subsidies for economically important regional programs, including livestock and beef production, subsidies for crop insurance, and for compensation for the purchase of agricultural machines. All resolutions were drafted by the Russian Ministry of Agriculture, the implementer of the State Program 2013-2020. The resolutions specify methods of distribution of 106.3 billion rubles (\$3.4 billion) subsidies, or 88 percent of subsidies envisaged for agriculture in the Ministry of Agriculture's budget for 2013. These subsidies include 58.2 billion rubles (\$1.88 billion) for compensation of interest rates for short, middle and long-term loans to agricultural producers, of which 5.9 billion rubles (\$189 million) are saved from the unused Ministry of Agriculture's 2012 budget. All Rules adopted by these resolutions are effective as of January 1, 2013.

Crop Producers Support Subsidies

GOR Resolution No. 1431 of December 27, 2012 approved the Rules for Allocation and Distribution of Subsidies for Support of Agricultural Producers in the Sphere of Crop Production: GOR Resolution 1431 on Subsidies to Crop Producers.

The Rules describe the mode of distribution of federal subsidies for the so-called “decoupled” support of Russian crop producers per the sub-program "Development of Crop Sub-sector, Processing and Marketing of Crops" of the State Program 2013-2020 and within the federal budget allocations for this sub-program in 2013. The Federal Law on the Federal Budget for 2013 allocated 15.2 billion rubles (\$490 million) for this “decoupled” support to crop producers.

The concept of “decoupled” support/subsidies to crop producers was introduced in the Program 2013-2020 and implies that subsidies will support farmers' incomes in general and will not be linked to production performance indicators of crops. Because WTO rules do not allow direct subsidizing supply of seeds, fuel, mineral fertilizer and chemicals to farmers (which was the Russian agricultural policy practice in 2008-2012), the “decoupled” subsidies to crop producers will allow reimbursement of agricultural producers (except private householders) on expenses on plant protection, on agro-technological activities, on financing some soil fertility improvements and works that increase the environmental safety of agricultural production.

The federal subsidies for support of crop producers will be distributed to farmers through the budget of the Russian Federation provinces. The formula for distribution of federal funds to provinces shall be calculated on the basis of the following indicators:

- The share of area sown in the total area cultivated in the Russian Federation;
- The coefficient of the level of intensity of use of area sown in the particular province vs Russia's average;
- The indicators of soil fertility of agricultural land in the particular province of the Russian Federation in accordance with the methodology approved by the Federal Ministry of Agriculture;
- The minimum subsidy per 1 hectare of arable land determined by the Ministry of Agriculture in

- accord with the Ministry of Economic Development;
- The sown area in the year preceding the current year in the Russian Federation and in the particular province;
- The number of provinces that produce certain crops;
- Various other indicators.

Although the Rules are in effect since January 1, 2013, the Ministry of Agriculture has not yet adopted all instructions for calculation of different indicators in the formula.

The further distribution of federal subsidies to crop producers through the provincial budget will be on a per 1 hectare of area sown to agricultural crops in the particular agricultural enterprise. The rate of subsidy per 1 hectare will be determined by the provincial authorities within the limits of federal subsidies allocated to the province.

The federal subsidies will be provided to the provinces only if the province has its own approved provincial program of support to crop producers, and only after provincial authorities sign an agreement with the Russian Ministry of Agriculture.

Subsidies to Milk Producers

GOR Resolution No. 1370 of December 12, 2012 approves the Rules for allocation and distribution of federal subsidies to provinces for reimbursement of certain expenses of agricultural producers for production and marketing of milk, per 1 liter of milk: GOR Resolution 1370 on Calculation of Milk Subsidies.

The Rules have been developed in accordance with the sub-program “Development of Livestock Sub-Sector, Processing and Marketing of Livestock Products” in the State Program 2013-2020 and with consideration of federal funds allocated for these subsidies by the federal budget of 2013. The federal budget of 2013 subsidies to agricultural producers for compensation of certain expenses related to production and marketing of milk per 1 liter of milk total 9.56 billion rubles (\$308 million). The rates of subsidy distribution for the reimbursement of the cost of production and marketing of 1 liter (kg) of milk for producers who sell and/or process milk are determined on the basis of the following criteria:

- The volumes of milk production shall not be less than in corresponding period of the previous year;
- The milking productivity of cows shall increase compared with the previous year;
- The calf crop per 100 cows shall be guaranteed.

The Ministry of Agriculture has developed formulas for distribution of federal funds among provinces to subsidize milk producers and formulas for the further distribution of subsidies to milk producers through provincial budgets.

Subsidies for Provincial Agriculture Development Programs

Resolution No 1433 of December 27, 2012, amended the Rules of Distribution of Subsidies from the Federal Budget for the Support of Economically Important Provincial Programs for the Development of Agriculture: GOR Resolution 1433 On Distribution of Subsidies for Provincial Programs. The amendments adjust the Rules to the requirements of the State Program 2013-2020. In 2013, federal budget subsidies for economically important provincial programs for development of agriculture will include 3 billion rubles (\$97 million) for support in crop production and processing; 8.0 billion rubles

(\$258 million) for programs in livestock production; and 2.0 billion rubles (\$65 million) for the development of the beef cattle industry.

The Federal Program on Development of Agriculture in 2013-2020 expanded the list of economically important regional programs with some new ones, including the development of vegetables and potato production and storage, warehousing and processing of grain, development of sugar and flax industries, production of greenhouse vegetables, creation of wholesale distribution centers for potatoes, vegetables, fruits, other agricultural products, raw materials and food; development of swine breeding and genetic centers, development of further processing of pork; and prevention of the spread of African swine fever on the territory of the Russian Federation; plus development of processing and marketing of livestock products. The amended Rules of distribution of federal subsidies will cover all programs, including the new ones.

The Rules provide that the Russian Ministry of Agriculture will distribute the federal subsidies (on the principle of co-financing) for regional/provincial programs on the basis of the following criteria:

- Provincial programs shall support those subsectors of agriculture or manufacturing that have potential economic benefits in the domestic and world markets;
- Provincial programs shall be essential for social and economic development of agriculture of the Russian Federation as a whole, and the provinces;
- Provincial programs shall comply with the climate and the traditional forms of agriculture in the certain region of the Russian Federation;
- Programs shall be aimed at technological modernization of agriculture;
- Programs shall encourage private business and organizations to invest their own, non-budget funds to these programs.

Those regional programs that are selected by the Russian Ministry of Agriculture will be organized in groups, and levels of co-financing from the federal budget will vary from 40 to 60 percent for each group. The subsidies from the federal budget are submitted on the basis of agreements concluded between the Russian Ministry of Agriculture and the authorities of the subjects of the Russian Federation (provinces).

Rules provide that the effectiveness of the spending of the budgets of the Russian provinces, when the source of these spending is the federal subsidy, is evaluated annually by the Russian Ministry of Agriculture on the basis of achieving the following performance indicators:

- Increase in revenues from sales of crops and livestock products and related services;
- Growth of irrigated and reclaimed land;
- Growth in gross milk production;
- Increase of stocks of beef cattle and stocks of beef and dairy hybrid cattle

The Amendments to the Rules provide complex formulas (developed by the Ministry of Agriculture) for calculation of the distribution of federal subsidies to provinces and for the calculation of the effective use of these subsidies.

Interest Rate Subsidies

Resolution No 1460 of December 28, 2012 “On Approval of Rules of Allocation and Distribution of Federal Budget Subsidies to the Budgets of Subjects of Russian Federation for Compensation of Part of

Interest Rates of Loans Received via Russian Credit Organizations and in the Agricultural Rural Credit Cooperatives: GOR Resolution 1460 On Interest Rate Subsidies. The federal budget 2013 allocated 58.24 billion rubles (\$1.88 billion) for the interest rate subsidies to crop and livestock producers, and this will include 5.9 billion rubles (\$189 million) from the non-used federal funds in 2012. According to Dmitriy Yuryev, the Deputy Minister of Agriculture, the major features of these Rules (a 52 pages document) are the following:

- Beginning in 2013 interest rates on investment credits (over 2 years) to agricultural producers will be subsidized from the federal budget in the amount of two-thirds of the Central Bank refinancing rate, and from the provincial budget – within one-third, but not less than 20 percent of the Central Bank's refinancing rate. The exemptions are made for milk and beef producers. Interest rates for milk producing farmers will be subsidized at 80 percent from the federal budget, and by not less than 20 percent – from the provincial budget. As for producers of beef ("meat from cattle"): the federal budget will subsidize interest at 100 percent of Central Bank's refinancing rate, and provincial budgets will subsidize in the amount of 3 percent of Central Bank's refinancing rate. As for loans received prior to 2013, the terms of interest rate subsidies will be as they were before (i.e. 2/3 from the federal budget, and 1/3 from provincial budget);
- Cattle farmers (meat producers) will be able to use the scheme of subsidized interests on the up to 15 years' investment loans;
- The list of beneficiaries of interest rate subsidies on investment loans has been expanded: processors of agricultural products were included. According to the Russian Agricultural Ministry, this measure will help to decrease imports of food products and to increase consumption of domestic food products.

On investment loans contracted beginning January 1st, 2013, federal and regional interest rate subsidies will be available to agricultural producers and processors of agricultural products in many spheres, including, but not limited to the following:

- Construction and reconstruction of potato warehouses, greenhouses, flour mills, bakeries, oil-crushing plants, sugar refineries, planting seeds conditioning factories, including sugar beet seeds conditioning factories, construction of plants for production of high protein products;
- Reconstruction and repair of irrigation and soil conservation systems (until December 31st 2013);
- Building and modernization of livestock farms, slaughter houses and meat packing plants, cold storages and refrigeration facilities for meat and dairy products, cheese and butter plants, cattle farms;
- And beginning January 1st, 2015, for building and modernization of facilities for plant biotechnology (diagnosis of plant diseases, bio-additives for feeds, bio-products for food industry (starches, syrups, ferments, micro-organisms for dairy , fats and oils, and meat industries), organic acids, bio-fuel.

The interest rate subsidies from the federal budget will be submitted on terms of co-financing from the provincial budgets within the approved provincial programs.

The Rules provide complex formulas for calculation of the share of each province in the federal subsidy for different loans and different groups of products. According to the Deputy Agricultural Minister, subsidy transfers from the federal budget to provincial budgets may begin in March 2013 after the Ministry of Agriculture and the provincial authorities develop and adopt all necessary regional programs and appropriate regulatory mechanisms.

Insurance Subsidies

GOR Resolution No 1371 of December 22, 2012 adopted Rules of distribution of subsidies from the federal budget to provincial budgets for the partial compensation of farmers' expenses on agricultural insurance: GOR Resolution 1371 On Insurance Subsidies.

The Rules regulate distribution of subsidies from the federal budget of the Russian Federation to provincial budgets for the reimbursement of expenses of agricultural producers on insurance premiums for agricultural insurance contracts. The compensations will go to the insurance companies in the amount of up to 50 percent of the premium. The Rules come into force on January 1st 2013, and replace previous rules adopted in December 2011.

The Federal Law on the Federal Budget for 2013 envisaged 5.0 billion rubles (\$161 million) of federal subsidies for reimbursement of farmers' expenses on insurance premiums for crop insurance, and 1.0 billion rubles (\$32 million) of federal funds for the reimbursement of farmers' expenses on premiums for livestock insurance.

The reimbursement covers part of the following expenses of farmers for insurance premiums:

- In crop insurance: in case of loss and failure of agricultural crops, perennial crops and orchards as a result of impact of hazardous natural events, penetration, and (or) the spread of harmful organisms, the interruption of electrical and heat and water supply as a result of natural disasters;
- In livestock insurance: in case of loss (death) of farm animals from contagious diseases, natural disasters, interruption of electric and thermal energy, and water supply as a result of natural disasters, fire. State support of insurance did not cover livestock insurance before, and begins in January 2013.

The Rules define the terms of transfer of federal funds to the provincial budgets and set the following requirements for the insurance companies:

- Compliance with a certain debt-to-equity ratio that guarantee financial stability of the company,
- Membership in the union of insurers,
- The insurers' participation in insurance of agricultural risks shall not exceed 40 percent of the sum insured under a contract of agricultural insurance,
- The insurer shall apply those methods for determining the cost of insurance and the amount of losses that have been approved by Russian Ministry of Agriculture and coordinated with the Russian Ministry of Finance,
- The insurer shall apply rates for calculation of subsidies approved for a given year.

The federal subsidies for compensation of insurance premiums will be provided to the provinces only after provincial authority sign agreement with the Russian Ministry of Agriculture.

Subsidies to Agricultural Machinery Producers

The Resolution No 1432 of December 27, 2012 (GOR Resolution 1432 on Subsidies to Agricultural Machinery Producers) sets the rules for support of acquisition of agricultural machines by Russian farmers. Such support was envisaged by the State Program 2013-2020 (subprogram Technical and Technological Modernization and Innovative Development).

Federal Law "On the Federal Budget for 2013 and the planning period of 2014 and 2015" allocate 2.3

billion rubles (\$74 million) for reimbursement of the cost of agricultural equipment to agricultural producers in 2013.

In accordance with the Rules, the federal budget will subsidize producers of agricultural machinery to compensate part of their expenses for manufacturing and sale of farm machinery to agricultural producers (hereinafter - subsidies). The compensation is set at 15 percent of the price of agricultural machinery. The total volume of subsidies to enterprises that sell machinery to farmers in a single province shall not exceed 5 percent of the total federal budget allocated for this purpose.

The Rules determine the following:

- Types of agricultural machines and equipment that are covered by subsidies (farm tractors, harvesters, potato and fodder harvesters, tractor mowers and seeders, cultivators for continuous tillage, plows, disc harrows, potato planters, potato diggers and machines for harvesting grain, oilseeds, pulses and other cereal crops), as well as limiting amounts of subsidy for each type;
- The total amount of subsidies to the manufacturer, depending on the number of personnel involved in the production of agricultural machinery;
- Criteria to be met by the manufacturer of agricultural equipment; the manufacture shall be a legal entity - a tax resident of the Russian Federation for at least three years and carry out production of agricultural machinery, have the rights to the design and technological documentation, shall provide for solid warranty on machinery valid for at least 12 months, shall sell its agricultural machines and equipment in at least 40 provinces of the Russian Federation and shall have agreements (contracts) with service organizations for its maintenance and repair in the period of at least one year;
- The list of processing operations carried out by the manufacturer in course of production of agricultural machinery.

The Rules also define the terms of subsidies. Thus, the price of agricultural equipment for a calendar year is set on the basis of ex-factory and shall not exceed the average price in the previous year, adjusted by the deflator index approved by Russian Ministry of Economic Development for the current financial year. The average price of a specific model of agricultural equipment in the previous year is determined by the actual amount received by the manufacturer from the sale of a specific model of agricultural equipment, divided by the total number of sales of agricultural equipment of this model, and this shall be confirmed by the territorial tax authority.

The Ministry of Agriculture monitors these subsidies, and annually assesses the effect of these subsidies on the basis of the degree of achievement of the following performance indicators:

- Increased investments in main agricultural production;
- Increased investment in the development and adoption of new or upgraded models of agricultural equipment.

Subsidies to Producers of Select Crops

GOR Resolution No. 1295 of December 12, 2012 (GOR Resolution 1295 on Support of Production of Some Crops) adopted the Rules for distribution of federal subsidies to provinces for partial compensation of the following expenses of crop producers:

- Reimbursement of the cost of acquisition of elite seeds;
- Reimbursement of expenses for purchase of seeds for remote regions, including the delivery of these seeds to the Far North and similar areas;

- Reimbursement of expenses for crop production on the low-productive arable land in the Far North and similar regions;
- Reimbursement of part of the expenses for planting and maintenance of perennial fruit and berry orchards;
- Reimbursement of part of expenses for planting and maintenance of vineries;
- Reimbursement of expenses for uprooting of old orchards and for re-cultivation of uprooted areas.

The federal budget allocations for these subsidies in 2013 are 2 billion rubles (\$63.2 million).

Comments

The adopted government resolutions have allowed the implementation of the State Program 2013-2020 to begin. However, the distribution of these subsidies and beginning of actual support to Russian farmers in 2013 will likely be delayed, thus impacting farmers spring sowing plans.

Although all resolutions came into force on January 1, 2013, the distribution of subsidies will begin only after the Federal Ministry of Agriculture signs an agreement with the relevant authority of the Russian Federation (province). For most of the subsidies, the funds from the federal budget will be submitted only on terms of co-financing from the provincial budgets. Also, the necessary funds in the provincial budgets (almost equal to the federal funds) should already be contained in the provincial budgets.

The mechanisms for calculation of subsidies for each province and for each sub-program are based on complicated formulas. Calculation of factors in these formulas will need additional manpower and funds in the region. Many factors that are included in the formulas still need to be specified within the next three months by the Ministry of Agriculture. This will delay the distribution of subsidies.

Given the complicated calculations, limited level of federal funds, and necessity to spend money from provincial budgets, the real support to farmers and the final participation of provinces in the use of federal subsidies may be lower than those in 2012.

Some industry analysts and farmers have estimated that the actual support of agricultural producers will decrease in 2012. According to the Director of IKAR, the government support of crop producers through fertilizers, planting seeds and fuel subsidies amounted 40 billion rubles annually in recent years, while the new “decoupled” subsidies will be only 15 billion rubles in 2013. Some potato and sugar beet producers report that the previous support, if calculated per 1 hectare, was 8 – 10 times higher in 2012 than it will be in 2013.